

**Iowa Telecommunications & Technology Commission
Grimes State Office Building, 1st Floor
Des Moines, Iowa**

Final

September 18, 2008

Commissioners Present

Betsy Brandsgard, Chairperson (by video)
Timothy L. Lapointe, Member (by video)
Pamela A. Duffy, Member
Michael W. Mahaffey, Member (by video)

Commissioners Absent

Robert R. Hardman, Member
David A. Vaudt, Ex-Officio Member

Iowa Communications Network Staff Present

John Gillispie, Executive Director
Joseph Cassis, Deputy Director
Dave Marley, Operations Administrator
Dave Lingren, Service Delivery Administrator
Kevin Heinzeroth, Finance Administrator
Mike Cruise, Finance
Patricia Townsend, Finance
Vicki Wallis, Engineering Administrator
Tami Fujinaka, Government Relations Manager
Gail McMahon, Public Relations Manager
Diane Van Zante, Secretary (Recorder)

Guests

Kay Runge, Education Telecommunications Council (ETC)
Deborah Helsen, Legislative Service Agency
Kyle Holmgren, Qwest
Lynee Casper

Call to Order

Ms. Brandsgard called the meeting to order at 9:08 a.m. It was noted that a quorum of members was present for the meeting. The planning session originally scheduled for this afternoon is being rescheduled to November, possibly on the 13th in Cedar Falls. There will be a short business meeting that day, however most of the time will be set aside for planning. Commissioners were asked to check their availability for that date.

Approval of 7/17/08 and 8/20/08 Meeting Minutes

Commissioner Duffy moved approval of the July and August meeting minutes; Commissioner Lapointe seconded the motion. A roll call vote was taken, unanimously approving the minutes as written.

Commissioner Duffy – Yes
Commissioner Lapointe – Yes
Commissioner Mahaffey – Yes
Commissioner Brandsgard – Yes

Old Business

ETC's EOA Committee – Kay Runge.

The committee met on August 21 and began the process of revisiting its mission and suggesting enhancements to the performance metrics. Some of the ideas will be discussed at the In Toto conference later this year. At present, there are 65 people registered for the main conference. Commissioners look forward to hearing from Kay again at the November meeting.

New Business

FY10 Budget – Kevin Heinzeroth.

Kevin Heinzeroth and Commissioners Brandsgard and Hardman recently took part in a lengthy conference call to discuss the FY10 budget. Commissioners Duffy and Lapointe moved approval of the FY10 budget, opening the floor to further discussion of the matter. Chief Financial Officer Heinzeroth explained that the budget utilized historical data to forecast customer activity. Department of Management guidelines stipulated that FY10 budgets mirror FY09 budgets, so the ICN set a course to balance the budget within those restrictions. Data led the way in the revenue columns. Traditional video use continues to decline, but we hope to pick up customers with the IP video service. Voice services are difficult to predict; the Board of Regents has not moved its traffic off of our circuits and has not indicated when they might do so. Revenue from the Board of Regents was not included in the FY10 forecast. The Iowa Hospital Association network may generate some revenue in 2010, but the number of participating hospitals is still uncertain. Installation revenues should be up, due to proposed construction of the new State office building, however there are rumors that construction may be delayed. Overall, things are pretty much in line with the FY09 budget. This is a conservative, preliminary budget; there will be an opportunity to reforecast it in the spring. The FY10 budget was completed using current video rates, not using proposed adjusted rates.

At present, the ICN is authorized for 107 FTEs, but has only 87 people on staff; that is about a 20% vacancy factor. Definition of terms: *other revenue* is miscellaneous revenue from selling equipment, fiber maintenance fees, and interest income; *other operating expense* is day-to-day utility costs and building maintenance fees; miscellaneous administrative costs are items such as printing, postage, shipping, etc.

A roll call vote was taken, unanimously supporting submission of the budget, as presented.

Commissioner Duffy -- Yes
Commissioner Lapointe – Yes
Commissioner Mahaffey – Yes

Commissioner Brandsgard – Yes

Review FY09 ICN Budget to Actual Financials – Kevin Heinzeroth.

Financials presented today are for the month ending July 31. The August books are still in the process of being closed. We continue to see the same trends as the past year, although video is slightly stronger than it was in FY08. The biggest change is in voice services -- a drop of about \$15,000 in July, compared to a year ago, although voice services can go up and down from month to month. Data services saw a big increase, up \$89,000 from July of last year. Installation revenues are ahead of July last year by \$69,000. Administrative expenses are \$38,000 higher than last year at this time.

Preliminary Final Update of FY08 Financials – Kevin Heinzeroth.

Current FY08 financials reflect an increase of \$134,000, primarily due to receipt of staff sharing reimbursements in period 13 (July 2008 hold open period for processing of previous fiscal year transactions) and installation charges that were not billed until period 13.

FY07 Audited Financials – Kevin Heinzeroth.

The Auditor's Office has issued its findings on the FY07 audited financials. They gave the ICN an unqualified report. Auditor Vaudt did offer some recommendations for improvement, however those recommendations were referenced as good safe practices, not as an indication of problems.

ICN Budget Offers – Kevin Heinzeroth.

1. ICN major equipment replacement offer – Yearly offer for network equipment replacement. This request is for a total of \$2.2 million. Due to the costs associated with flooding earlier in the year, it is difficult to predict what the legislature will do.
2. Replacement of ICN generators that have reached the end of functional life -- This request is for \$2.7 million. The generators have been in use since the inception of the network and were not commercial grade to begin with. The Lt. Governor has been supportive of the ICN's infrastructure needs. Director Gillispie would like to make his case to the Department of Management, but does not know if he will have the opportunity.
3. Voice platform redundancy – Second phase of the project to provide redundancy on the Capitol Complex (to provide continuity of government if the primary system fails). This request is for \$2.3 million.

Commissioner Mahaffey moved approval of the three budget offers, as outlined; Commissioner Duffy seconded the motion. A roll call vote was taken; the motion passed unanimously.

Commissioner Duffy - Yes

Commissioner Lapointe – Yes

Commissioner Mahaffey – Yes

Commissioner Brandsgard – Yes

Legislative Update – John Gillispie.

Based upon specific requests made of the ICN, we have provided information to Senator Danielson and Representative Kelly. The ICN is also required to outline any legislative issues it intends to bring forward in the legislative session. The only thing the ICN has put forward is

Part III, the same as it did last year. Director Gillispie would like the ITTC to have decision-making authority to choose the best solution to provide Part III.

Action on Certified User Waiver Requests – Dave Lingren.

Both entities are seeking renewal of existing waivers.

- Central College – Waiver request to provide backup Internet service.
- Waldorf College – Renewal of waiver for long distance service, although the quoted rate is higher than the ICN rate. In the past, the college has experienced problems with consistent long distance delivery.

ICN staff recommends approval of both requests, however plans to work with Waldorf College to seek solutions and turn the situation around.

Commissioner Mahaffey moved approval of the waiver requests; Commissioner Duffy seconded the motion. As a point of clarification, Waldorf College does not meet the requirements for approval from a pricing perspective. A roll call vote was taken; a majority of the Commissioners voted to approve.

Commissioner Duffy - No
Commissioner Lapointe – Yes
Commissioner Mahaffey – Yes
Commissioner Brandsgard – Yes

Set Video Rates for FY09 – Dave Lingren.

In recent months, we have talked about options for different customer bases and about financial pressures the ICN is facing. Director Gillispie and Mr. Lingren met with the Department of Human Services (DHS) and with the University of Northern Iowa (UNI) to discuss video rate issues. If the ICN raises rates too much, DHS would likely reduce the amount of usage because it has a limited budget. UNI was very understanding of a rate change and felt comfortable that it could live with a 10% increase in the rate. The ITTC rate subcommittee (Commissioners Duffy and Hardman) met recently with Sales Delivery Manager Dave Lingren. Despite efforts to increase usage by holding rates even, the rate subcommittee feels that reasonable rates need to be implemented. This would equate to a 10% increase for educational users and a 30% increase for administrative users. Commissioner Duffy moved the aforementioned increases in video rates; Commissioner Lapointe seconded the motion. The floor was opened for discussion.

Q. What response has there been from other customers on the proposed rate increase?

A. None of the large users have offered an opinion.

Q. Is that a concern or a bad sign?

A. Entities that are moving away from using ICN services are indifferent. Others respect the fact that the ICN has held its rates constant for quite some time. Customers that do use the ICN service have expressed understanding.

Q. With proposed rate increases, what is the projected increase in revenue?

A. A marginal increase in revenue is anticipated. Most customers have budgeted amounts of revenue for ICN services. If the ICN can find new ways to utilize video, it might garner more revenue. It is part of an overall marketing plan and strategy.

This is a tough, but reasonable recommendation. An increase in video rates may impact voice and data rates more favorably since voice has traditionally subsidized video. The Commission has held rates steady a long time hoping to see increased usage, but has not seen that happen. Although agencies submit savings reports, they do not view it as savings, but as avoided costs.

This may be the first year that the ICN is exposed to federal over recovery penalties. By law, all customers must be charged the same rate for the same service. One estimate of that uniform rate is about \$60/hour. Until we establish standard rates for all customers, we are exposing ourselves to a potential \$60,000-\$70,000 liability. The Commission cannot go to the Appeals Board to request those funds. The ICN must move to a standard rate for all customers to avoid a potential federal over recovery problem.

Q. Are there other things that we could give our customers to soften the blow of increased costs for video?

A. You may not give any services for free. That is considered cross subsidization and is not permitted. You are also not allowed to have more than 60 days of working capital. For the ICN, that is very detrimental. That means the ICN can only have about \$6 million in the bank. The federal government can literally take away any working capital over the 60 day working capital maximum. This issue will resurface year after year and get worse with each year. Moving customers away from products that do not make money is the only option.

Q. Is there a federal solution?

A. The ICN has been trying to find a federal legislator to champion the cause, but to no avail. Because you are not permitted to cross subsidize a product, it is extremely difficult to introduce a new product. This situation stifles innovation in government and in information technology. One possible resource for help is Congressman Bruce Braley who served on the Telejustice Advisory Committee.

When the Commission meets again in November, these factors will have to be part of the discussion. Moving to a single rate for educational and administrative users will likely be a shock to the education community.

Dave Lingren offered a clarification on the subcommittee's recommendation. The 30% increase would be on administrative and other use. The federal rate would remain at \$60.16.

A roll call vote was taken; the motion passed unanimously.

Commissioner Duffy – Yes
Commissioner Lapointe – Yes
Commissioner Mahaffey – Yes
Commissioner Brandsgard – Yes

Action on IP Conferencing Pricing – Dave Lingren.

Commissioner Duffy moved that the ITTC go into closed session for the purpose of discussing prospective non-video rate setting. The ICN and ITTC consider prospective non-video rates to be trade secrets. Under Iowa Code 22.7(3), trade secrets are confidential records. Iowa Code 21.5(1)a permits a government body to go into closed session to review or discuss confidential

records. Commissioner Mahaffey seconded the motion. A roll call vote was taken and passed, as follows:

Commissioner Duffy - Yes
Commissioner Lapointe – Yes
Commissioner Mahaffey – Yes
Commissioner Brandsgard – Yes

Commissioner Duffy then moved adjournment of the open session to go into closed session. Commissioner Lapointe seconded the motion. A roll call vote was taken and passed, as follows:

Commissioner Duffy – Yes
Commissioner Lapointe – Yes
Commissioner Mahaffey – Yes
Commissioner Brandsgard – Yes

The open meeting adjourned at 10:38 a.m. and the room was cleared.

Following the conclusion of the closed session, guests were invited to rejoin the meeting, however no one did. The Chair reconvened the public meeting at 10:48 a.m. and opened the floor to a motion. On behalf of the rate subcommittee, Commissioner Duffy moved approval of the IP Conferencing Pricing proposals identified during the closed session. Commissioner Lapointe seconded the motion. A roll call vote was taken, unanimously approving the new pricing.

Commissioner Duffy – Yes
Commissioner Lapointe – Yes
Commissioner Mahaffey – Yes
Commissioner Brandsgard – Yes

Other Business – Commission, Executive Director and Staff.

The ICN has hired a new administrative assistant, Lori Larsen, and she begins work next week. Ms. Larsen will be assuming responsibility for the ITTC minutes.

Adjournment – Commission.

There being no further business, the meeting adjourned at 10:52 a.m.